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TRANSNATIONAL CORPORATIONS

Karl P. SAUVANT, of the United Nations Conference on Trade and Development (UNCTAD), discusses a new study, entitled "World Investment Report", on the activities of transnational corporations, especially their effect on employment and the workplace. Mr. Sauvant notes that the study shows that transnational corporations transfer far fewer jobs from developed countries to third world nations than is popularly imagined. He also discusses the issue of control of these globe-spanning enterprises and the question of their social responsibility. Mr. Sauvant notes that the largest 120 transnational corporations together control more than $3 trillion ($3,000 billion) in assets worldwide.

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ANNOUNCER: From United Nations Headquarters in New York, this is **World Chronicle**, an unedited interview programme about major global issues. Here now to introduce our guest is the host of today's **World Chronicle**.

LITTLEJOHNS: I'm Michael Littlejohns, and this is **World Chronicle**.

One of the most remarkable phenomena of recent decades has been the growth of transnational corporations -- businesses whose investment, production and distribution cross traditional international frontiers. A comprehensive new study by UNCTAD, the United Nations Conference on Trade and Development, entitled *World Investment Report*, looks at recent trends in the evolution of these globe-spanning business entities. It particularly focuses on their impact on employment and the workplace.

Our guest today is Karl P. Sauvant, Chief of the Research and Policy Analysis Branch of UNCTAD's Division on Transnational Corporations and Investment. He'll be interviewed here at UN Headquarters in New York by Bhaskar Menon of *The Times of India* and Ian Williams of *The New York Observer*. Mr. Sauvant, welcome to World Chronicle.

Mr. Sauvant, during the great debate on the North American Free Trade Agreement, Mr. Ross Perot, a former potential presidential candidate, referred to the "great sucking sound" of jobs being lost to Mexico and the South. Now, reading this report, it seems that there's quite an element of validity in that argument. Jobs are going to the third world countries and presumably being lost to the developed countries that are the homes of these transnational corporations. I see, for example, that Nike, the athletic footwear people, have 9,000 core staff, presumably at their headquarters in Oregon, and 75,000 working in sub-contracting jobs. Now, the reason for that is not hard to discern: it's evidently cheaper to manufacture athletic shoes in Malaysia, China, et cetera, et cetera, than it is in Oregon. What's UNCTAD's response to these arguments?

SAUVANT: Well, actually, the question of the transfer of jobs from developed to developing countries which you referred to in your quote from Ross Perot is underlying this year's *World Investment Report*, not only because of the debate in North America, but because there's a similar type of debate in Europe, in particular in France in the context of *délocalisation*. Now, what we have done is we have looked systematically at job transfers associated with foreign direct investment. And the answer which we came up with is not exactly the same as you summarized it. We concluded that job transfers associated with foreign direct investment are in fact quite small. And the reason is, the principal reason is that most foreign direct investment is actually market oriented; that is, is undertaken by companies in foreign countries in order to produce in that market

for that market, and typically in products which cannot be exported easily. So the largest bulk of foreign direct investment in fact does not involve a transfer of jobs from developed to developing countries, but rather actually represents a creation of jobs in developing countries, or, for that matter, in other developed countries.

LITTLEJOHNS: So the example that I cited, of Nike, that's an aberration?

SAUVANT: Well, it's not an aberration, but it's actually not really a true case of foreign direct investment, if you wish, because actually most of the 75,000 employees of Nike abroad are employed in companies that are associated with Nike through sub-contracting agreements, and not in fact actual production facilities that have been transferred from a developed country to a developing country.

MENON: But could I turn that question slightly around and say if the investments had not been made in the developing countries, if the transnational corporations had not been in place to make the investments to create those 75,000 jobs, is it possible that the money would have stayed or been invested in developed countries and created jobs there? In other words, not actually transferring jobs, you're making investments there and creating jobs there.

SAUVANT: I think you have to make one key assumption on that. And that is if you proceed from the assumption that we live in a world in which we have a fairly open trade and investment regime, the alternative to Nike sub-contracting in developing countries would not have been to establish a production facility in a developed country, but simply to import. So in a world which is open, companies have to produce where, from their perspective, it is most efficient to produce, and if they cannot produce themselves, they will either sub-contract or they will import.

MENON: It used to be, in the '70s, when this whole issue of transnational corporations came before the international community, that it was very often said that the corporations had the capacity to package technology with capital and the capacity to market, and that this package was what made the transnational corporations so powerful in the world economy. Has that package been unwrapped in any way, or is it still true that the corporations are the single most effective way of transferring on this package?

SAUVANT: I think you touched on something which is very important, namely, that foreign direct investment is actually not only capital, but it is a package of capital, of technology, of training, of access to markets; and the ability of the transnational corporation to organize and locate this package and manage the package worldwide is in fact what makes it the most distinctive characteristic of a company of this type. If anything, if anything, today the importance of this package has increased because many technologies are either only available on an inter-firm basis or are so expensive that you

have to produce them in cooperation with other companies. And at the same time it becomes increasingly more important to have access to international markets and production networks, which makes it very important for countries to be, in one way or another, associated with at least the leading companies in the world, which tend to be from the OECD countries.

WILLIAMS: When the UN started examining transnational corporations it was doing so with a very sort of worried look at it, because some of these transnational corporations have been involved in, for example, overthrowing progressive regimes throughout the world -- I think in the case of Chile, which was one of the keys to the original foundation. I think what scared a lot of people about it then and in the original documents that came out of the UN was the whole idea of who controls these people, since they seemed to be out of control of their own governments, and they were certainly more powerful than some of the governments in whose territory they were operating. And, reading your report, your answer to this seems -- you seem now to be saying transnational corporations are a good thing, but that we should expect from them a social responsibility.

Now, since you're talk -- you also talk about the market as a concept of principle, and in Anglo-Saxon parlance, the market tends to be responsibility to the shareholders, to the stockholders, as opposed to a sort of continental, European and Japanese idea of a corporate collective ethos which includes the workers and the community. In western capitalism, the idea is that the shareholders and maximization of profit are what these companies are about. So how do you reconcile this idea of social responsibility, which is what some transnationals doubtless believe in, with the predominant ethos of the World Bank, and it seems you, that capitalism, "red in tooth and claw", is the answer?

SAUVANT: You're raising a number of issues.

WILLIAMS: Yes.

SAUVANT: The first one is the question of the economic power of transnational corporations, and there's no question that transnational corporations are in fact important, if not the most important, actors in international economic transactions, not only through foreign direct investment, not only through trade, but also through transfer of technology, transfer of skills and similar types of economic assets that are central to economic growth. Moreover, what we have observed in the last decade or so is a trend towards a different type of organizing international activities by transnational corporations, namely, in the direction of integrated international production systems that actually span the boundaries of many countries, particularly OECD countries.

WILLIAMS: This makes it even more difficult for individual governments to control --

SAUVANT: Correct.

WILLIAMS: -- or regulate what these companies do.

SAUVANT: That's correct. Now, that raises immediately -- the importance of this phenomenon raises of course the question of what is an appropriate regulatory framework for this activity, not only from the point of view of host countries or home countries, but also from the point of view of stability and predictability as far as an investment framework for corporations is concerned. And this issue, as you know, at one point was discussed in the United Nations in a context of a code of conduct, but that discussion has now moved on partially into GATT, where in the framework of the --

LITTLEJOHNS: The General Agreement on Tariffs and Trade.

SAUVANT: Thank you. The General Agreement on Tariffs and Trade, yes. Where in the framework of the Uruguay Round an agreement was actually reached which covers foreign direct investment in services as well. And foreign direct investment in services accounts for approximately 50 per cent of all investment worldwide today. And a similar effort is actually underway in the context of the Organization for Economic Cooperation Development, OECD, to come up with a multilateral investment framework. So here --

MENON: Could I stop you for one minute --

SAUVANT: Sure.

MENON: -- and ask you what exactly are you talking about? Within GATT there is an attempt to regulate or to come up with a code of conduct?

SAUVANT: No, within GATT there was an effort, there was an agreement within the agreement on trade and services which also covers foreign direct investment. And this is an agreement which is --

MENON: So this is a part of the World Trade Organization?

SAUVANT: That's correct.

MENON: Which will come up in January of --

SAUVANT: That's correct. That's correct.

WILLIAMS: But this exacerbates the type of problems we're talking about. We're saying that even more things will be open to, will be free from any type of government regulation --

SAUVANT: That's right, that's right.

WILLIAMS: -- or protection, you might say, of the workers in those industries, or the consumers of those countries.

SAUVANT: Yes. All of this is aimed to have a framework for international investment. Now, the question of social responsibility goes beyond that. The question of social responsibility -- which is, incidentally, a debate which is very much generated in the United States as opposed to Western Europe -- raises a question whether companies, important economic actors, transnational and national companies alike, have responsibilities which go beyond what is in the laws and regulations of the country --

MENON: Can I again, to try and put a point on this -- because it tends to be that when we talk about transnational corporations we enter an area of kind of nebulous conceptions which most people really don't understand; let me try and put a specific thing on it. If a company that is incorporated in a particular sovereign nation fails, you know who's accountable for it, you can sue people, you can try and get your money back. If a transnational corporation fails, who -- where do you go? Where do the stockholders of a transnational corporation go for redress?

SAUVANT: At the moment, they have to go to the authorities of the country in which they are. And that means that they, as a rule, can only sue, or whatever, get redress, in the framework of the assets which happen to be located in this particular country, which is clearly not the most efficient way of dealing with the bankruptcy of a transnational corporation. So clearly there would be the question whether, given this phenomenon, one ought to have a multilateral approach to cases of bankruptcy.

MENON: Are there any transnational corporations that have gone bankrupt that have created major problems?

SAUVANT: Oh, there certainly are. BCCI was one example. But there are a number of other big companies that have gone bankrupt. We had done a little calculation on that. If you assume that about 1 or 2 per cent of companies go bankrupt as a rule -- of course, not only big ones, but also many small ones, or in particular small ones -- and if you know that there are approximately at least 37,000 transnational corporations, you can imagine that there are every year a number of companies that go bankrupt. And most of them don't pose any major problem. But when it comes to real big companies like BCCI, there is a real problem, and the international community is in no position at the present time to address that as efficiently as it can do that in a national framework.

LITTLEJOHNS: This is World Chronicle. Our guest is Karl P. Sauvant, Chief of the Research and Policy Analysis Branch of UNCTAD's Division on Transnational Corporations and Investment. Ian Williams.

WILLIAMS: Recently, over the last few years, for example, certainly the last 10 years in the United States and Britain, when we saw Adam Smith's "invisible hand of the

market", it was very, very visible, and it consisted of greedy yuppies chasing after companies, merging, acquiring, loading them up with debt, and, I mean, many companies which were inherently profitable and sustainable were actually collapsed under the weight of what you might call artificial debt that was piled onto them by these financial manoeuverings. Is there any means that you can see to protect developing industries in the third world from being racked up like this, if a major multinational takes over another one and decides the country is disposable? What redress do they have?

LITTLEJOHNS: The country is disposable?

WILLIAMS: Yes, well, effectively, yes. What's good for General Motors is good for America, and what's good for Pepsi-Cola will be good for some small state that makes it.

SAUVANT: No longer necessarily. But the type of problem you refer to is, first of all, not a problem which is specific to transnational corporations; it's a problem which is specific to national -- which is as relevant to national companies as it is to international. But I think the important thing is that most transnational corporations, or for that matter most big companies, regardless of whether they are transnational or not, as a rule pursue longer term strategies in the framework of which the type of thing which you are describing, where a company would buy up an asset abroad and then dispose of it the next day, is not the typical thing that is being undertaken. On the contrary, what we see is that companies which plan for a longer period of time try to establish networks which, taken together, service the interests of the company best. Of course that raises immediately the question, how can a host country, or increasingly a home country, benefit from these activities.

MENON: But that does raise the same old question -- we keep coming back to it: Who controls these companies? In a major transnational corporation it used to be that at least the top staff were all of one nationality. I don't think you could say that really about any of the major transnational corporations now. They are a mix at the top, there are people from different countries, shareholders from a variety of different countries. Where does the power lie?

SAUVANT: We are speaking of transnational corporations and not multinational corporations, and the reason is precisely that most of these companies are still headquartered in one particular country and operate across the borders of that country with the management -- with the top management typically being composed of nationals from the home country.

MENON: What percentage of nationals?

SAUVANT: Oh, I would think that in the top positions you would find rarely more than 10 per cent who are foreigners. That is changing, that is changing, but certainly, overwhelmingly I think, control and also ownership of the companies is very much still in the home countries.

MENON: In the same proportion of 90 to 10, you'd say?

SAUVANT: As far as ownership is concerned?

MENON: Yes.

SAUVANT: I don't know, and there's also the question of portfolio ownership.

MENON: Right.

SAUVANT: But clearly, there are a few companies, like Shell, you know, or Unilever, which are binational, but as a rule most companies are in fact --

MENON: Then when politicians in Washington beat their breasts and say they have no control over these corporations, are you saying effectively that they're not really speaking the truth?

SAUVANT: No, I wouldn't say that. I would certainly say that --

WILLIAMS: These companies control the politicians in Washington! I think is the corollary.

MENON: Precisely, yes!

[LAUGHTER]

SAUVANT: It's clear that home countries in particular have quite some means, and as far as I can see sufficient means in most areas, to control corporate behaviour, including the behaviour of transnational corporations. Plus, a company that has an affiliate in a host country is obviously subject to the laws and regulations of the host country, as any other country.

WILLIAMS: But you have -- if I can pick on a sort of pet example would be the tobacco companies, which are downsizing in Western Europe and the United States because people have realized that smoking gives you lung cancer. So in the United States you have continual government regulation, anti-smoking legislation, while the same government is busily, through GATT and other procedures, attempting almost to force people in the third world to accept the products of these companies, which are shifting their production and sales increasingly to the third world. They're all desperate to get into China, for example.

SAUVANT: Right.

WILLIAMS: The thought of a thousand million Chinese smoking themselves to death --

LITTLEJOHNS: They already are.

WILLIAMS: -- is obviously causing ecstasy in some parts of the corporate community.

SAUVANT: But that's not a TNC-specific problem. That's a broader problem, a broader issue.

WILLIAMS: Well, it sums it up, because here you have a company -- here you have a whole group of very influential companies --

SAUVANT: Yes.

WILLIAMS: -- whose behaviour is regulated as anti-social in their home country, which are then going beyond their home country to countries that don't have the strength to face up to them in the same way.

SAUVANT: Perhaps.

WILLIAMS: In fact they're harnessing the power of their home countries to force them almost. In the case of Thailand, for example, over cigarette advertising, when the United States Government took the Thai Government to GATT to force them to allow American companies to advertise cigarettes there.

SAUVANT: But again, that is not a TNC-specific problem. Because tobacco companies could service the Thai market through exports. So you're talking about, I think, a much broader issue, namely, whether the production and sale of certain products which you or others think are not desirable ought to be allowed, and whether exports in these areas ought to be allowed, and economic activity is being allowed. The transnational corporation issue is more specific in the sense of being tied to production facilities, to assets being controlled in another country.

WILLIAMS: Oh, most of these tobacco companies are doing precisely that, in China and Eastern Europe. They're moving in a big way.

LITTLEJOHNS: Mr. Sauvant, these transnational corporations control huge sums of money. Isn't there an element of risk involved there on the currencies of the countries where they're operating? I mean, the transfer of these large sums, conversion and so forth? Isn't that a problem?

SAUVANT: It could be potentially a problem, especially as far as transnational banks are concerned. But again, this may not necessarily be a TNC-specific issue, but rather anybody who has money can move this money around internationally. Transnational corporations, in the context of their regular operating procedures, obviously also transact funds and obviously have possibilities to speed up payments or delay their payments depending on what the currency situation looks like. But all that, I think, is simple expressions of the -- even with, you know, these complicated implications

-- simple expressions of the working of a system, of a market system that is fairly open and liberal.

LITTLEJOHNS: How much money are we really talking about across the board? I mean, trillions and trillions of dollars?

SAUVANT: Well, we have estimated that the largest 100 transnational corporations, ranked by size of foreign assets, have approximately 3.4 trillion -- had approximately 3.4 trillion assets in 1992, of which about 40 per cent were located outside the home country. And I think this is, incidentally, one of the aspects one has to see. We typically look, also in this report, at flows of foreign direct investment, and in fact we're making the point here that the world has emerged, re-emerged from the foreign direct investment recession. But foreign direct investment flows are, after all, cumulative, they're not perishable. They build a stock of foreign direct investment which is increasingly integrated across borders, and which is forming now what we call an international production system which we estimate may be accounting for approximately one third of productive assets worldwide. So what we are seeing here is really, I would almost say, a transformation of the world economy in the direction of deeper integration than what we had in the past.

MENON: But one of the problems in deeper integration is environment. You know, many environmental groups have pointed out that world trade, traditionally, throughout history, has been regional at best and within national borders, most of it. And now for the first time in history we have transnational corporations going around the world, as you say, with integrated production structures, getting stuff from Africa, getting stuff from Asia, assembling it in Europe and selling it somewhere else. Now, in doing this whole thing -- it's highly energy intensive, it's highly capital intensive -- you're creating patterns of exchange which might not be sustainable, which might not make any sense, actually, except in terms of the profit to be made. How do you -- what -- who sets -- I mean, is there any kind of intelligence planning this whole integrated world economy that's emerging?

SAUVANT: Apart from the general framework, which is being administered by GATT or by the International Monetary Fund, very little. It is the decisions of individual companies deciding where to locate their production facilities, which of course makes it very attractive for countries to see whether they can actually attract such investment -- and these are not only developing countries. But there is, as far as I can see, no guiding hand behind this except the economic rationale as it reveals itself to individual --

MENON: But does the UN --

WILLIAMS: But are you happy with these developments? I mean, you've exposed them very well here. Are they a good thing, or are they something we should be very careful with and attempt to regulate and attempt to guard against the consequences?

SAUVANT: I think these developments which we see contribute on balance to economic growth and economic well being, not only of home countries but also of host countries. I think they're simply an expression of today's world economy which allows you to locate your production not only within the framework of your state or your community, but you can look at location of production worldwide. And that opens, incidentally, many new opportunities for countries that in the past would not have had those opportunities.

MENON: But are corporations aware of the need to look at social goods as part of the package, to look at environmental goods as part of the package? Are they -- do they recognize that that should be part of the decision-making process?

SAUVANT: Well, I think, as it was mentioned earlier, the first priority and the first responsibilities of corporations are to their shareholders, and that means to make a decent profit and to grow. But there are clear indications -- and again, especially in the United States, but also elsewhere -- that companies do recognize that they have a responsibility which goes beyond making profits, that they have a social responsibility.

LITTLEJOHNS: Mr. Sauvant, we have less than a minute left. It seems to me that there's been a change of attitude and philosophy in the UN system toward transnational corporations. I recall there used to be a Centre for Transnational Corporations which seemed to me to identify many of them as sort of bad guys. Now UNCTAD seems to be saying that these are pretty good guys. Why the change?

SAUVANT: Well, unfortunately, the answer's a bit more complicated. In the UN, the Commission on Transnational Corporations, an inter-governmental body, has changed its attitude towards transnational corporations. Governments used to see transnational corporations as part of the problem. Now governments see transnational corporations as part of the solution. As far as the Secretariat is concerned, we have always maintained that we have done fairly objective work.

LITTLEJOHNS: Mr. Sauvant, that's all the time we have. Thank you for being with us on this edition of World Chronicle.

Our guest has been Karl P. Sauvant, Chief of the Research and Policy Analysis Branch of UNCTAD's Division on Transnational Corporations and Investment. He was interviewed by Bhaskar Menon of *The Times of India* and Ian Williams of *The New York*

Observer. I'm Michael Littlejohns. Thank you for joining us. We invite you to be with us for the next edition of World Chronicle.

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